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- The Egyptian economy grew at a strong pace in 1Q2021-2022, as it continues its recovery from repercussions of the outbreak of the Covid-19 pandemic. GDP expanded at an annual 9.8% clip during the July-September 2021 period, on the back of continued recovery in the country’s hospitality sector and improved manufacturing activity. The growth rate is also a notable upturn from the 7.2% GDP growth rate recorded in the final quarter of the previous fiscal year.

- However, the recorded growth rate is magnified by a strong base effect from 1Q 2020-2021, when the economy grew by 0.7%, having contracted slightly the quarter before due to lockdown restrictions and global disruption caused by the pandemic. The government of Egypt expects GDP growth to hit 5.5-5.7% in FY2021-2022.

- Employment fell back after rising steadily for the past four months. Decreased demand has led to reduced workloads, so employers are opting to cut expenses by keeping vacant job positions open. As a result, backlogs of work piled up at the fastest rate since November 2020.

- Annual headline inflation increased in September 2021 to 6.6% from 5.7% in August 2021, driven by strong monthly dynamics as well as unfavourable base effects. The rate recorded is the highest and the only rate higher than 6% since January 2020. The increase came on the back of the monthly acceleration by 1.1% compared to -0.3% during the same month of the previous year, September 2020, mainly driven by food items.

- The general consumer price index for the country recorded 116.1 points for September 2021, an increase of 1.6% from August 2021. Prices of fresh vegetables and fresh fruits increased by 25% and 1.2%, respectively. Higher prices of fresh vegetables came mainly as prices of tomatoes increased by 88.5%, contributing alone by 0.58 percentage points to monthly headline inflation. Furthermore, other slight increases were recorded: red meat by 1.9%, poultry by 2.8%, and eggs by 1.7%.

- Prices of services increased by 0.2%, to contribute by 0.06 percentage points to monthly headline inflation. This was mainly due to higher expenditure on restaurants and cafes as well as higher prices of private hospitals and outpatient services. Prices of regulated items slightly increased by 0.1%, to contribute by 0.03 percentage points to monthly headline inflation, mainly due to higher vehicle operating expenses and prices of medical products and inland transportation.

- Domestic food prices were highly affected by higher international prices as a great share of strategic goods are imported from abroad, which render the domestic price more vulnerable to the international volatility in prices. However, relative stability in the FOREX market has mitigated the pass-through effect to a notable extent.

- Egypt has maintained a high real-interest rate at 2.5% during Q1FY 2021/22, which gives an edge to the Egyptian economy compared to its main economic peers in the emerging market. Additionally, Egypt has the highest differential between its key policy and inflation rates among more than 50 economies tracked by Bloomberg. The high inflation-adjusted rates has been leading to a boom in foreign holdings of Egyptian debt, which hit a record USD 33.3 billion at the start of August 2021.
The Egyptian economy grew at its strongest pace in two decades in Q2 2021-2022, as it continues its recovery from repercussions of the outbreak of the Covid-19 pandemic. GDP expanded at an annual 9.8% clip during the July-September 2021 period, on the back of continued recovery in the country’s hospitality sector and improved manufacturing activity.

The growth rate is also a notable upturn from the 7.2% GDP growth rate recorded in the final quarter of the previous fiscal year. However, the recorded growth rate is magnified by a strong base effect from Q2 2020-2021, when the economy grew by 0.7%, having contracted slightly the quarter before due to lockdown restrictions and global disruption caused by the pandemic. The Government of Egypt (GoE) expects GDP growth to hit 5.5-5.7% in FY2021-2022.

### Real Growth Rate

Source: Ministry of Planning and Economic Development

### Growth-leading Sectors (y-o-y)

- Public Infrastructure: 8.30% (Q1), 6.00% (Q2), 7.70% (Q3), 9.80% (Q4)
- Telecommunications: 5.40% (Q1), 2.90% (Q2), 3.00% (Q3), 5.60% (Q4)
- Manufacturing Industries: 11.00% (Q1), 15.20% (Q2), 16.00% (Q3), 5.00% (Q4)
- Hospitality: 60.00% (Q1), 182.00% (Q2), 7.00% (Q3), 0.70% (Q4)

Source: Central Bank of Egypt

### Unemployment

Source: Central Bank of Egypt
Building on the implemented measures to expand the taxation umbrella, Egypt maintained a primary surplus of 0.9% during FY20/21 on the back of tax collection digitization efforts beside leveraging reduced (actual) spending towards strategic commodities procurement, subsidy bill, and public investments.

Moving forward, Egypt is targeting to achieve a primary surplus of 1.5% while slightly lowering its debt-to-GDP to 89.5% from 89.8% recorded in FY20/21. The noticeable delay in moving forward with the debt control measures will be directed toward increasing injection of public investments in education, healthcare, and infrastructure projects.

Nonetheless, fiscal reforms towards revenue mobilization and fiscal performances of SoEs remain essential moving forward to limit non-essential expenditures. Increases in subsidy bills associated with the budget benchmark pricing of wheat and oil may also be expected. (Wheat @ USD 255/ton; Brent @ USD 60/barrel).
FY2021/22 investment bill will witness increased spending on labor-intensive sectors, particularly construction and infrastructure projects. The bill will also include a 67% y-o-y increase in construction and infrastructure spending as part of the 3-year Hayah Karima (Decent Life) initiative. This project is focusing on elevating infrastructure in rural regions.

Nonetheless, most of the public investments bill is expected to be implemented through the state’s administrative agencies (EGP 208 billion) and public services agencies (EGP 115 billion).

Egypt’s median debt age continued its upward movement towards the 4-years average time to maturity through maintaining conservative issuances of T-bills, introduction of Islamic-finance (Sukuk) and green bonds debt tools.

The increasing expenditure towards debt service remains a mounting pressure on budgetary provisions and on the ability of the GoE to direct required spending towards public social services.

With further obligations towards the IMF looming in FY2023/24 and FY2024/25, the alleviation of Egypt’s vulnerability towards another outflow of non-resident portfolio investors remains a priority.
Egypt’s main current account receipts maintained noticeable growths during Q1 2021/2022 on the back of growths in oil and gas, industrial, and agricultural exports as well as an increase in Suez Canal traffic. Egypt’s agricultural exports maintained their strong performance leveraging new market destinations for citrus fruits, beside considerable performances of electronic devices, engineering products, and jewelry exports while the resumption of LNG shipments by Idku and Damietta LNG.

Consistent growth in remittances and Suez Canal receipts maintained their contribution to the balancing of current account deficit moving forward.
• Egyptian non-oil exports amounted to about USD 23.301 billion during the first 9 months of 2021, achieving an increase of 25% compared to the USD 18.617 billion recorded during the same period in the previous year 2020.
Foreign Direct Investment (FDI)

Net FDI flows (FY15/16 - FY20/21)

- FDI net inflows in FY20/21 amounted to USD 5.214 billion maintaining Egypt’s ranking as the largest FDI recipient in Africa during the previous 3 years.
Monetary Sector

• Annual headline inflation increased in September 2021 to 6.6% from 5.7% in August 2021, driven by strong monthly dynamics as well as unfavourable base effects. The rate recorded is the highest and the only rate higher than 6% since January 2020. The increase came on the back of the monthly acceleration by 1.1% compared to -0.3% during the same month of the previous year, September 2020, mainly driven by food items.

• Egypt maintained one of the world’s highest real-interest rate at 2.5% during Q1FY 2021/22, which gives an edge to the Egyptian economy compared to its main economic peers in the emerging market. Additionally, Egypt has one of the highest differential between its key policy and inflation rates among more than 50 economies tracked by Bloomberg. The high inflation-adjusted rates has been leading to a boom in foreign holdings of Egyptian debt, which hit a record USD 33.3 billion at the start of August 2021.

Inflation Rate – y-o-y (%)

Interest Rate – CBE Main Operations (%)

Source: Central Bank of Egypt

EGP:USD Exchange Rate

Foreign Reserves (USD Bn)

Source: Central Bank of Egypt
Reforms and Forecasts

Targeted Policies

Increasing Maturity of Debt and Revenue Mobilization from Debt Profile

- The GoE plans to raise funds from the international capital markets worth around USD 3.5 billion on a yearly basis throughout the projected horizon up to the end of FY 2023-24, under the Medium-Term Debt Management Strategy (MTDS). The GoE has two available programs to issue global international bonds: the GMTN - Global Medium-Term Note Program for Eurobonds issuances up to USD 30 billion and the EMTN – Euro Medium Term Note program for Eurobonds issuances up to USD 12 billion.

- As part of the GoE’s debt diversification strategy and efforts to shift towards longer-term debt, Egypt is listing USD 750 million 5.25% notes, due October 2025, on the Sustainable Bond Market of London Stock Exchange. The transaction, which represents the first sovereign green bond issuance from the Middle East & North Africa, was well received by the market, with a high-quality order book in excess of USD 3.8 billion. Proceeds are planned to be used to cover Egypt's USD 1.9 billion green projects across renewable energy, clean transport, sustainable water and wastewater management, and pollution reduction and control. The GoE is also aiming to make long-term debt constitute around 52% of borrowing by June 2022.

- The Ministry of Finance obtained the Cabinet of Ministers' approval for a new Sukuk Law, which was sent to the Parliament for final deliberations and approval to attract numerous sukuk investors, especially from the Gulf region and Asia.

Associated Risks

Vulnerability towards EMs outflow

- Egypt is currently preparing to cushion itself from the potential impact of the U.S. Federal Reserve’s tapering on emerging markets. Emerging-market debt-including Egyptian bonds and T-bills- could become less attractive to foreign investors if the Federal Reserve chooses to retract its asset-purchase pandemic program and raise interest rates during the next year.

- A tighter U.S. policy could leave emerging markets vulnerable to a drop in foreign inflows as risk-averse managers seek safer returns in the US. Therefore, amid uncertainty on the global front and a largely stable domestic inflation environment, it is expected that the Central Bank of Egypt will maintain its policy rates throughout 1H2022. The economy is currently growing faster than debt, and stable net international foreign exchange may create good buffers against potential capital outflows.

Global Supply Chain Crisis

- The non-oil private sector activity in Egypt is facing deep contraction as continued supply chain disruptions abroad are causing input costs to rise at their quickest pace in over three years. As of November 2021, a sharp rise in business costs continued to drive higher selling prices and lower demand across the Egyptian non-oil economy.

- IHS Markit’s Purchasing Managers’ Index (PMI) came in at 48.7 in November 2021, marking the twelfth consecutive month it has been below the 50.0 mark that separates expansion from contraction. Output fell for the third month in a row, as output price inflation rose at the second-fastest pace since mid-2018, providing a challenging outlook for future prices.
Thank you